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WG I M-77

January 17, 1957

EDAC Working Group I, International Export Control Systems

MINUTES

1:30 p.m., Wednesday, January 9, 1957
Room 509 Maiatico

Attendance

MDAC

Mr. Levin, Chairman
Mr. Wight
Mr. S. Tucker
Mr. Shaw

ICA

Mr. J. Tucker

CIA



25X1A9a

State

Mr. Henderson

Commerce

Mr. George

Defense

Mr. Carmody

Miss Rector, MDAC, Committee Secretary

Agenda:

- Item 1. Control of Ship Sales.
(Ref. WG I D-53, 11/30/56; WG I D-53.1, 12/7/56)
- Item 2. German Tungsten Wire for Rumania.
Netherlands Tungsten Wire for Poland.
(Ref. POLTO 1527, 1/4/57; POLTO 1491, 12/26/56; CA-9568,
6/1/56; WG I D-1668.6)
- Item 3. 1957 List II Review - Problem of 3(d) Procedure.
(Ref. POLTO 1528, 1/4/57; POLTO 1482, 12/21/56)
- Item 4. UK Ad Hoc China Exception for Tires.
(Ref. POLTO 1530, 1/4/57; POLTO 1516, 1/2/57; London Embtel 3518,
12/31/56; WG I D-0/1821.1)
- Item 5. Draft Instruction on Possible Licensing of Mercury to Poland by Italy.
(Ref. Mr. Eastman's (State/ECD) draft of 1/4/57)
- Item 6. Reconsideration of China Exception - UK Fused Aluminum Oxide Powder, 0/2375.
(Ref. POLTO 1107; WG I M-70, item 7; WG I M-71, item 1; WG I M-75,
Note h; Commerce paper)
- Item 7. Nylon Parachute Cloth - Item 1930.
(Ref. WG I D-1930.3, 1/2/57)

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State, OSD, Commerce declassification & release instructions on file

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1. Control of Ship Sales.

(Ref. WG I D-53, 11/30/56; WG I D-53.1, 12/7/56)

Decision

It was agreed that arrangements for a further study of the entire ships problem, utilizing WG I D-53 and WG I D-53.1, and designed to provide the necessary information on the basis of which to evaluate the current COCOM controls, would be worked out by State, through its intelligence organization, and CIA, through [REDACTED] 25X1A9a (Subsequently, the Defense member suggested that Mr. McCaffrey also participate in the arrangements. The Chairman agreed, and so notified State.) An outline for the study would be submitted to the Working Group by these people within the next ten days, together with a statement as to the date the review was expected to be completed, so that members could comment on approach, adequacy, and timing.

Discussion

The Chairman referred to the document submitted to the Group by the Defense member (WG I D-53), based on studies by various areas of Defense and the intelligence community, of the "Significance of Shipping to the Sino-Soviet Bloc Build-up", and to the exchange of correspondence between Mr. Marshall Smith of Commerce and the EDAC Chairman on the subject of "COCOM Controls and the Petroleum Problem" (WG I D-53.1) which had been referred to the Group by the Chairman of EDAC with the caveat that WG I defer consideration of the suggestion that tankers be built in West European yards for U. S. delivery and for payment through P.L. 480 counterpart. The Chairman said that it seemed to him that the total problem of dealing with ships could appropriately be divided into three parts. The material before the Group seemed to be addressed to the first part of the problem, i.e. putting the substantive material available and the over-all substantive conclusions into form that would be useable for discussion of appropriate action to be taken. Once this sort of substantive presentation, with fairly firm conclusions agreed upon among the interested agencies, was before the Group, it could then consider the question of what were the action possibilities, and finally the question of what action should be taken. He asked the Defense member for comments on the Defense paper.

25X1X4 The Defense member stated that it was the Defense position that everything possible should be done to increase the effectiveness of controls on ships and shipping. He noted that the document before the Group had been excerpted from a much larger document. The information contained here had been approved by the JCS for release to the Group, but the [REDACTED] had not. Defense would like to have the matter considered in terms of what pressures could be brought to bear on our allies. If it was determined to use pressures, Defense would like to suggest the problem of the scarcity of ship plate. Spokesmen for the industry in this country claimed they were getting only about 40% of their requirements for ship plate. He had no idea what the conditions were regarding the export of ship plate, but it had been suggested that this might be one of the items used to exercise moral suasion on our

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allies in getting them to agree to tighter controls on shipping. The Commerce member advised that Commerce did not control exports of this item, but thought that figures on exports could be obtained.

25X1A9a [REDACTED] of CIA advised that for some time he had been engaged in revising EDIC ID-16. The original document contained information through 1954. The revision would contain tables showing deliveries from free world yards to the bloc in 1955 and through December 1, 1956; ship construction as of December 1, 1956; and ships on order as of December 1956, as well as corresponding tables for sales of second-hand ships. The summary tables he had prepared were supported in each case by individual country tables showing precise vessels, delivery date, gun status, and indicating future delivery dates through 1960. He noted that this covered only one part of the over-all problem. To evaluate Western contribution to Sino-Soviet bloc shipping, figures on the size of the Sino-Soviet bloc fleet would have to be brought up-to-date. Given 25X1A9a the annual accessions to the Soviet bloc fleet from its own resources, both Russian and satellite, the seriousness of the Western contribution could then be determined. [REDACTED] advised that the information on the Western contribution in 1955 and 1956 and through 1960 so far as it was known at this point was being reproduced for distribution at the next EDIC meeting. He added that it was the intention that these charts would be revised by periodic addenda as new information became known. The Chairman agreed that this was an important type of information needed before consideration in any precise terms could be given to the nature of the action problem. He asked the Commerce member for comments on Mr. Marshall Smith's memorandum.

The Commerce member stated that a matter of timing was involved with respect to the over-all issue, which might become important, because if we did move toward some effective attempt at resolving our current COCOM/CHINCOM difficulties, certainly resolution of the shipping problem was one of our most important aims. This comment related both to the general problem and to the more specific proposal in Mr. Smith's memorandum. Re the latter, it seemed to Commerce that it would be appropriate to consider whether now would not be a time to try to have Western Europe itself make some real contribution to a resolution of the tanker problem, which was deeply involved in the delivery of oil, and to seek assurance that facilities will be available in the future for the delivery of oil to Western Europe. It might be unwise for the U. S. to undertake the tanker program alone, and as part of any over-all settlement of the petroleum problem we might seek to have Western Europe use some of its facilities, possibly replacing some of the orders it now has from the Soviet bloc, to make an increased contribution to the West. This might not mean that what they planned to ship to the bloc -- tankers or other vessels -- would not be shipped. It might merely delay shipment, which would be to our advantage.

25X1A9a [REDACTED] noted that no tankers were being built for the Soviet bloc anywhere in the free world, with the possible exception of Finland. The Commerce member said there were reports which indicated the possibility that the French again may get involved with the bloc on tankers. But whether they were tankers or other vessels

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which we prefer not to see delivered to the bloc, if the available facilities could be moved into the tanker program, this, it seemed to Commerce, would be advantageous. The CIA member thought that the vessels which were being built for the bloc employed facilities which could not easily be adapted to tanker production. The Commerce member felt other dry dock facilities might be available or might be set up and noted that much of the same equipment and personnel could be used.

25X1A9a The Chairman inquired of [REDACTED] whether, on the basis of the information he had compiled so far, he was in a position to make a tentative estimate as to whether the recent trend in deliveries or commitments or both to the bloc has been on the increase or decrease over the last year or two as compared with the previous few years.

25X1A9a [REDACTED] advised that new ships delivered in 1955 from COCOM countries totaled 56,000 GRT; non-COCOM country deliveries totaled 53,000 GRT; the total number of new ships was 81, amounting to 109,878 GRT. Deliveries in 1956 through December 1 from COCOM countries comprised 42 new vessels, amounting to 100,000 tons, and from non-COCOM countries an additional 68 vessels, amounting to 65,000 tons. The total was roughly 50% more than it was in 1955. His figures showed under construction as of December 1, 1956, 11 vessels, totaling 33,700 tons, from COCOM countries, and 6 vessels totaling 13,500 tons from non-COCOM countries. In addition, on order but not yet under construction as of December 1, 1956, were 30 vessels from COCOM countries, amounting to 94,000 GRT, and an additional 28 vessels from non-COCOM countries amounting to 80,000 GRT. He added that very few new orders were actually placed in 1956.

25X1A9a The State member felt that what was needed now was as careful a documentation as we could have, in view of the peculiarly sensitive nature of this issue in the international community. He thought that although the initiative had properly been taken here, we would have to go quite a bit further in the line of intelligence research before we could reexamine the issue in WG I. What had been submitted to the Group and what was now under review by [REDACTED] were not completely adequate for this purpose. He preferred that this research be specifically developed by consultation between Mr. Knoll of State/ECD and [REDACTED]

25X1A9a

The ICA member said that lacking a fuller understanding of the danger involved in any construction program which COCOM countries might be undertaking, he did not feel that any particular action was warranted at this juncture in maneuvering the aid program, or the PL 480 program, i.e. he did not feel anything more was called for now than further investigation and vigilant watching of what might transpire in Western acceptance of orders for the construction of tankers, etc.

The Chairman thought Defense had made a good start in furnishing some significant information on the ships problem, but this was only a start, and further analysis was needed, geared to the type of problem we have to face, namely, the problem of whether the existing multilateral controls are adequate. The further study should be done in such a way that the Group could, after reviewing it, knowledgeably define and evaluate the action problem in all its ramifications. Therefore he suggested that the Group,

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through State, with its OIR staff, and the CIA representative here, refer these papers to the intelligence community to be worked on further. He agreed with Commerce that there was going to be a timing problem. He noted that we had not heard anything specific on the effort Defense had been engaged in for NATO on the Soviet bloc shipping problem. It might be that the paper presented by Defense was at least in part information developed for NATO, but this was not clear. The action suggestion in Mr. Smith's memorandum to which the Group might direct its attention was "the suspension of any new construction or the negotiation of new contracts for merchant ships destined for the USSR until such time as the current demand for tankers has been satisfied by Western European shipyards". The Chairman felt that our recent high-level approach, authorized subsequent to the Commerce memorandum, on curtailing shipments generally, would cover this point adequately for the time being, and that we would not want to make a special issue of this aspect of the trade control problem, at least until we had received the responses to the bilaterals and determined where we were heading in trade control policy generally. The Chairman emphasized that the further study could not properly omit enforcement aspects such as chartering, that the problem should be studied as a whole, and it could later be decided how to pursue review of the study in organizational terms.

With respect to the Commerce suggestion that tankers to be built under the proposed new tanker construction program be built in Western European shipyards, the Chairman suggested that this matter be deferred until after the reply to Mr. Marshall Smith's memorandum to the Commerce Under Secretary for Transportation had been received. He thought it would probably be best to have consultation on this problem outside the Group before again pursuing the matter in the Working Group.

2. German Tungsten Wire for Rumania.

Netherlands Tungsten Wire for Poland.

(Ref. POLTO 1527, 1/4/57; POLTO 1491, 12/26/56; CA-9568, 6/1/56;
WG I D-1668.6)

Decisions

a. Re the German case, the Group agreed that a message would be sent advising that this case has now been reconsidered under the de minimis provision and the shipment is approved under that procedure; and that Washington has therefore not pursued further its technical analysis in terms of the Note to Item 1668.

b. Re the Netherlands case, the Group agreed (Defense member reserving but subsequently reporting concurrence) that on the basis of the new technical analysis orally given by the Commerce member, this shipment should be approved under the Note to Item 1668.

c. The Commerce member agreed to initiate a Technical Task Group analysis of the way in which the new technical advice affects the previous technical position forwarded with CA-9568 of June 1, 1956.

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Discussion

The Chairman referred to TOPOL 1110 of December 28 which had been sent in connection with the German case advising that if there could be a deferral, we would be glad to review the COCOM document submitted by Germany to determine whether our position would remain objection or would be modified by the document. We had added that if deferral were obtained in this case, we would hope the Netherlands would also agree to deferral of its similar case. The USDEL had secured a postponement in both cases to January 11. The Chairman suggested that the Group first consider the German case and noted that the incoming message reporting the case had been garbled and the Group had assumed this case was purely a submission under the Note to Item 1668. It turned out that the Germans had submitted the case in accordance with the minimum shipments procedure and the Chairman asked that the Group reconsider this case in terms of its propriety as a de minimis proposal.

The Commerce member did not see that we had a basis for objecting to the German case as a de minimis proposal, noting that the quantity was clearly de minimis. The Chairman and other members agreed. (See also Decision, above, sub-para. a.)

With respect to the Netherlands case, the Commerce member advised that he had new information and read a technical report just received containing the opinion of Mr. Marsden that there was no reason to object since the very low elongation factor would make it impossible to redraw these coils. The Commerce member noted that if Mr. Marsden's advice was acceptable, it would enable a favorable finding in this case rather than an unfavorable finding.

The CIA member reported that the informal advice he had received from his agency's technicians was completely in line with that given by Mr. Marsden. The elongation factor would preclude this wire from being withdrawn. CIA technicians also felt that it would preclude the wire from being used in applications other than those for which it was intended. In addition, Poland, as a matter of long standing, has been dependent on getting tungsten wire from the West for electric light bulbs. However, CIA still felt that tungsten was important, and he noted that such shipments released other tungsten for strategic uses.

The Chairman suggested that the question of bloc shortage of tungsten wire be held in abeyance for the moment. He assumed there was no disagreement that there was no reason to instruct the USDEL to object in terms of the Note to Item 1668. Views were expressed that the basic technical premise under which we had been working now seemed to require some modification. The Commerce member agreed to request the necessary further analysis from the technicians.

The Chairman said that having agreed that the Netherlands case could be approved under the Note to Item 1668, the next question was whether we should nevertheless disapprove it because of the contribution it would make to the bloc's tungsten wire supply. On this subject his own feeling was that we had cast the die when we admitted the possibility of exceptions under this Note. It seemed to him that it would

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come with poor grace from us now to say that since we could not disapprove this case as an accident of definition, we were going to disapprove it because it made too much of a contribution to bloc tungsten supply. He felt very strongly that we should take our action on this basis of whether or not the shipment fitted the Note to Item 1668. The Commerce member was willing to go along, but noted that if exports under the Note reached the point where it was felt that undue amounts were being shipped and therefore in the over-all sense a relief to an undue extent was being provided, we might raise the question of whether this loophole should be restricted. The Chairman agreed, and thought it might be well to keep a running record of exceptions under this Note, also under the similar Note to the molybdenum wire definition. He added that any member should feel free to bring the matter before the Group if he felt shipments under the Notes to these definitions were getting too high. The Defense member reserved with respect to the recommendation in the Netherlands case.

3. 1957 List II Review - Problem of 3(d) Procedure.
 (Ref. POLTO 1528, 1/4/57; POLTO 1482, 12/21/56)

Decisions

It was agreed (Defense member reserving but subsequently reporting concurrence) that the USDEL would be instructed that it is the Washington view that he should initiate no further action either on the specific IL II items that have been ruled 3(d) or on the general problem of the 3(d) procedure, pending evaluation of the responses to the current high-level bilaterals. However, even if full evaluation of the responses to the bilaterals cannot be completed by February 1, Washington then will consider again whether we should pursue the 3(d) matter in COCOM. The USDEL would be informed of our reasoning (para. III, A, 4, d of the Chairman's List II report) and advised that if this subject is brought up in COCOM by another PC, he is authorized to respond appropriately, drawing upon the kind of thinking on 3(d) described in our high-level approach (CA-5218, 12/27/56).

The Chairman said he would forward his report on "COCOM Review of IL II Controls for 1957" to the Chairman of the EC, with a cover note advising of the Group's agreement as described above, and would suggest EDAC distribution of both.

Discussion

The Chairman's report to the members on the COCOM Review of IL II Controls for 1957 was distributed. The Commerce member suggested that it would also be appropriate to include in the report an assessment of the effectiveness of the approach the U. S. had taken and a description of the general posture taken by each of the other countries in the negotiations. He thought such additions would be helpful both for the record and for our use in future negotiations.

The Chairman, by way of background for his report, informed the Group that he initially had intended to do only a summary, which would be either an MDAC staff memo to the Chairman of EDAC which could be distributed to EDAC for information and

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reference, or a report from the Chairman of WG I to the Chairman of the EC. Then it had turned out that the general problem of 3(d) interpretation had to be dealt with quickly (POLTO 1528), and the EC and EDAC Chairmen had told him that they thought the Working Group should try to deal with this problem. Therefore he had quickly put the report into the form of a memorandum to the Group, primarily to provide a basis and recommendation for dealing with the general question of the 3(d) rule, while at the same time providing a summary the Group could use for themselves and in briefing superiors. Re the suggestions the Commerce member had made, the Chairman said he could make his own assessment of the effectiveness of the U. S. approach, but others might make different assessments, and he did not wish to spend time in the Group trying to achieve agreement on an assessment. As for the description of the approaches taken by the other countries, he noted that this had been done last year but we had been dealing then with a more difficult situation. This year our principal antagonists were the UK and, to a lesser extent, France, and with a little more flexibility in our approach we probably could have settled our differences with them. He asked that the Group direct its attention to the recommendation made on page 3 of his memorandum: "That the U. S. initiate no further action either on the specific IL II items that have been ruled 3(d) or on the general problem of the 3(d) procedure, pending evaluation of the responses to the current high-level bilaterals".

The ICA member thought events of the recent past should not prevent us from taking the opportunity of strengthening the 3(d) rule, and he did not recognize this as going counter to any over-all general policy decision which might have jelled in the past few weeks. He thought that the USDEL had recognized that we were overdue in calling the attention of a few of the culprits in the use of the 3(d) rule to the fact that they have not really followed the letter of the law. He thought it was entirely compatible with our high-level approach for the USDEL to make a statement in COCOM along the lines he had outlined. Moreover he thought this was a necessary follow-through on statements we made during the List II Review.

The Commerce member advised that the reason he had found the Chairman's recommendation satisfactory was, in addition to the rationale the Chairman had set forth in his memorandum, that the current high-level approaches might have some significant effect on other PCs' comments in COCOM. If we proceeded in COCOM immediately, PCs' comments might more reflect their past positions, without reflecting any impact of this latest bilateral. Therefore he suggested adding to the recommendation "provided that such an evaluation can be made by February 1. Otherwise WG I will consider having the USDEL proceed with comment without waiting for such an evaluation".

The Chairman, replying to the statement of the ICA member, pointed out that his recommendation was not a proposal to drop the question of interpretation of the 3(d) rule. What had been done, in effect, was that the U. S. had moved our approach on 3(d) up to a higher level, along with other trade control issues. What he was saying now was that we should not raise the issue again in COCOM for the time being pending evaluation of the responses. He was not reflecting any thinking that to persist on the 3(d) issue would not be a good idea. He noted that when we get the responses to

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the high-level bilaterals we may have to prepare for another CG soon; we may have to reexamine this procedure and other procedures for that purpose. Review of the COCOM principles and procedures was long overdue. Also, he thought that continuing to hammer on this archaic 3(d) rule rather than trying to modify the rule was not going to be very productive and might be contra-productive. He emphasized that he thought an effort to remodel the 3(d) procedure should be made when the time appears propitious.

4. UK Ad Hoc China Exception for Tires.
(Ref. POLTO 1530, 1/4/57; POLTO 1516, 1/2/57; London Embtel 3518, 13/31/56;
WG I D-0/1821.1)

Decision

The ICA member with the assistance of CIA, Defense, and Commerce technicians, would prepare technical/strategic argumentation to be forwarded to the USDEL pursuant to his request in POLTO 1530.

Discussion

The Commerce member noted the following corrections which should be made in WG I D-0/1821.1: page 1, end of numbered para. 2, instead of "(approx. 3,000)", insert "3,315"; numbered para. 3(a) should read: "diameter sizes of 15 inches and over are usually used for low-platform trucks and trailers which have 16-40 tires per vehicle; and (b). . ."

The Chairman noted that the U.S. had been virtually isolated in objecting to this case and the UK had strongly urged that we move beyond our confinement of the discussion to the principle involved and discuss with them the strategic importance of the tires. The Chairman had originally resisted that idea, but had changed his opinion, largely on the basis that the USDEL had urged us to give him as much specific information as possible on the strategic uses of these tires. The document before the Group from the Commerce member would facilitate movement in this direction. He asked whether any member disagreed with the idea of sending the USDEL as much strategic or substantive information as was possible on this case. No member did.

5. Draft Instruction on Possible Licensing of Mercury to Poland by Italy.
(Ref. Mr. Eastman's (State/ECD) draft of 1/4/57)

Decision

The Group approved the changes proposed by the Commerce member in the draft instruction.

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6. Reconsideration of China Exception - UK Fused Aluminum Oxide Powder, 0/2375.
(Ref. POLTO 1107; WG I M-70, item 7; WG I M-71, item 1; WG I M-75, Note h;
Commerce paper)

Decision

The Chairman recommended that the USDEL be authorized to withdraw the U. S. objection to this case, on the basis of the information contained in the Technical Task Group Report. The State and ICA members agreed. The Commerce member objected, but stated he would not appeal, and reserved (subsequently reporting concurrence) on whether the outgoing message could be shown as cleared by WG I. The Defense member reserved (subsequently reporting concurrence).

Discussion

The Commerce member read a report he had received from the Technical Task Group. He reported that the Task Group is not of the opinion that the proposed shipment is an important quantity which will make a strategic contribution to the bloc. He added that the concern in Commerce stems more from the fact that the UK itself manufactures very little of its total need. The UK imports some, not a large amount, from the U. S.; most of the UK material is obtained from other European countries, for many of which the primary suppliers are subsidiaries of U. S. companies. These are under some regulation by FAC with respect to direct or indirect shipments to China. PD 810 policy does not extend in its application to shipments made by subsidiaries abroad. The position Commerce takes is that they would prefer to have the objection maintained, but were in the unfortunate position of not having a basis on which such objection could be firmly supported.

The State member advised that he would have supported an objection only if the shipment contained the white oxide and if there were any real question as to the FAC regulations. He was satisfied on the white oxide point by the technical paper. He had discussed the FAC point with Treasury, and Treasury was quite sure that the UK subsidiaries of U. S. firms were so well briefed on the regulations that they would not participate in such a shipment. Therefore he saw no reason to maintain the objection. The ICA member saw no basis on which to object.

The Defense member referred to the statement by the Defense representative at the Group's meeting on December 5 and advised that he would have to reserve for the time being.

The Chairman recognized the problem Commerce had, stemming from the 4 A rating, but noted that he would find it hard to conclude that we should give this factor controlling weight in view of the fact that the shipment involved only $2\frac{1}{2}$ tons and in view of the conclusions of the Task Group report.

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7. Nylon Parachute Cloth - Item 1930.
(Ref. WG I D-1930.3, 1/2/57)

Decision

It was agreed that the referenced document would be transmitted to the USDEL for his use in responding to questions raised by the Japanese and German Delegations. The Commerce member would notify the State member as to when the full review of the item would be available so the USDEL could be notified in terms of scheduling discussion in the Subcommittee on Lists.

Distribution:

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CENTRAL INTELLIGENCE AGENCY
Office of the Chief, Economic Research
Office of Research and Reports

Project Action Memorandum

Project No. 40.1708

Date: 29 Jan 1957

TITLE: EDIC/IR-27, "Sino-Soviet Bloc Merchant Shipping Requirements and Capabilities, 1956 through 1960"



REQUESTER: EDAC (via EDIC)

STATEMENT OF THE PROBLEM AND TERMS OF REFERENCE:

Problem: To estimate the extent of Free World contribution to Sino-Soviet Bloc shipping requirements.

Terms of Reference: As outlined in EDIC/IR-27, "Sino-Soviet Bloc Merchant Shipping Requirements," dated 18 January 1957. Project will be completed in two parts. Part I will be forwarded to the requester by 13 March 1957. Part II will be forwarded at a later date.

RESPONSIBILITY:

		<u>Man-hours</u>	<u>Due Date</u>	<u>Concurrence (Initials)</u>
Action Division:	D/S			
Branch:	S/TC	75	11 Mar 57	<i>Lut</i>
Contributors:	S/IR	350		
	(Part II only)			
	O/X		28 Feb 57	<i>Lum</i>
	I/SH	50		
Consulting Branch:	S/TF			
Staff:	St/PR			<i>692</i>
Principal Analyst:	 x1247	25X1A9a		
Project Monitor:	 x2803	25X1A9a		

This project will not delay completion of currently scheduled projects. The classification of this project will be no higher than SECRET.

APPROVED: *E. La* Ch/E

~~SECRET~~